

AR25



FRASER ANNUAL REPORT 1977

THE ANNUAL GENERAL MEETING

of the shareholders of Fraser Companies, Limited will be held at the Wandlyn Motor Inn, Edmundston, N.B., on Monday, the 17th day of April, 1978, at the hour of 11:00 o'clock in the forenoon, Atlantic Standard Time.



STOCK TRANSFER AGENT AND REGISTRAR

Montreal Trust Company
Montreal, Quebec
Toronto, Ontario
Vancouver, B. C.
Saint John, N.B.

STOCK LISTED

Montreal Stock Exchange
Toronto Stock Exchange

FINANCIAL HIGHLIGHTS	1977	1976	1975
Net sales	\$212,490,000	\$180,654,000	\$142,775,000
Net earnings from operations	13,853,000	11,051,000	7,212,000
Net earnings per share	5.90	4.71	3.08
Dividends paid per share	1.75	1.63	1.60
Cash flow from operations	27,466,000	21,147,000	15,049,000
Cash flow per share	11.69	9.02	6.42
Additions to plants and properties - net	44,459,000	23,144,000	9,186,000

AT YEAR END

Working capital	43,008,000	64,809,000	36,807,000
Long-term debt	42,901,000	43,712,000	8,909,000
Shareholders' equity	113,300,000	103,437,000	96,207,000
Shareholders' equity per share	48.23	44.12	41.04

CONTENTS

DIRECTORS' REPORT TO THE SHAREHOLDERS	2
BANK STATEMENT	4
A TRIBUTE TO ITS PEOPLE	5
MODERNIZATION	8
MAP OF OPERATIONS	9
WOODLANDS	10
WOOD PRODUCTS	12
OPERATIONS AND MARKETS	13
FINANCIAL REVIEW	16
CONSOLIDATED STATEMENTS OF	
FINANCIAL POSITION	17
EARNINGS AND RETAINED EARNINGS	18
CHANGES IN FINANCIAL POSITION	19
AUDITORS' REPORT TO THE SHAREHOLDERS	18
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	19
EFFECTS OF INFLATION	22
TEN YEAR COMPARISON	23
DIRECTORS AND OFFICERS	25
OFFICES, PLANTS AND PRODUCTS	27

DIRECTORS' REPORT TO THE SHAREHOLDERS

It was a good year for the Company with many of the most bountiful elements in Canada's forest industry being present in Fraser's 1977 operations. These were well developed woodlands, integrated forest product operations, strong markets for the greater part of the Company's products and a highly skilled and dedicated work force.

In 1977, 4.4% more tons of paper, boxboard and pulp were sold than the year before, and nearly 11% more lumber. Proceeds from these sales were 18% higher than they were in 1976. Net earnings of \$5.90 per share almost reached the record level of 1974 and made 1977 the second best year in the Company's history. These earnings were enhanced by the favourable conversion of U.S. dollars to Canadian dollars. This fact, while important, is certainly no better than a short term solution to the inherent Canadian problem of overspending.

Throughout the year the markets for lumber and groundwood papers were strong, absorbing full production at stable prices. The so-called "free sheet" or bond papers operated in a rather more over-supplied market which produced erratic prices. The Canadian market for boxboard was in an over-supply situation during the year, and while production was at capacity, cost escalation outpaced price increases. Pulp was a different story as the Company has no real commercial advantage in this product which competes in heavily over-supplied markets, in which prices fell approximately 25% during the year.

Last year nearly \$45 million were invested in additions to Fraser plants and properties. The



rebuilding of Fraser's physical facilities proceeded on schedule during 1977 and, when the modernization program at the Edmundston pulp mill is completed, this mill will be as modern and efficient as any.

One of our major problem areas is the Atholville pulp mill, which faces stagnant markets and depressed prices. Its processes and equipment are approaching obsolescence and it is confronted with serious environmental problems. Attempts to find viable alternative manufacturing processes or other uses for our

Restigouche wood resources have so far been unsuccessful. However, the search is continuing to redevelop an efficient and profitable unit at Atholville.

At year-end the Company's working capital of \$43 million was down a net \$21.8 million reflecting the heavy capital program. Although cash flows from operations are higher than expected at the outset of the Edmundston project, it will still be necessary to arrange additional outside financing during 1978. The cash squeeze in this and all capital intensive operations is exacerbated by infla-



tionary demands, the impact of which is shown on page 22 for our 1977 operations. This statement follows the recommendations made in 1977 to the Ontario Government and replaces the statements used by Fraser in 1975 and 1976 although the results are very similar.

The Company continues to emphasize the modernization and expansion of its operations to increase the efficiency and productivity of its plants and, at the same time, maintain its markets and profitability. A program to increase the capacity of Fraser

Paper to produce lightweight groundwood coated papers in its paper mill at Madawaska, is being seriously considered. Long-term contracts for the sale of this new production are being sought to ensure the viability of this program. If this project is approved then it could be in full operation by 1980, although some parts, as they are completed, would come on stream earlier.

Throughout the year the Company enjoyed good relations with its people and their communities, and can regard its past with pride and its future with con-

fidence. The recovery of business confidence is a matter of priority for Canadians and we believe Fraser is doing its share. To that end Company officers are spending an increasing amount of time with all levels of government and the public, and there is evidence that industry's position is gaining general understanding. The removal of controls and the sectoral industrial studies by the Federal Government are evidence that the private sector is being seen as worth nourishing rather than ravishing. The gradual development of a federal mechanism for consultation with business and labour is a healthy sign.

In 1977, the Company completed 100 years of continuous operation. Centennial Celebrations in all communities, where Fraser operates, provided an opportunity to pay tribute to the people who contributed to the Company's growth in the past and will maintain it in the future. These happy events which strengthened the ties between the Company and its people and the communities where they work, underlined our belief that personnel of any company are its essential resource. Quite clearly, Fraser is fortunate in all its assets and thus can face the future with confidence.

On behalf of the Board.

Adam H. Zimmerman	John P. Fisher
Chairman	President

BANK STATEMENT

date	item	withdrawal	deposit	balance
Jan 1/77				\$44,036,000.00
	Proceeds from sale of lumber, pulp, boxboard & paper.		208,602,000.00	
	Interest earned on term deposits.		469,000.00	253,107,000.00
	Paid out for Wood	41,508,000.00		
	Wages	53,130,000.00		
	Fringe benefits	11,511,000.00		
	Fuel	22,792,000.00		
	Services, chemicals, materials & supplies	45,268,000.00		
	Paid to reduce debt	790,000.00		
	Paid interest on debt	501,000.00		
	Paid for new machinery	44,459,000.00		
	Paid to federal, provincial, state and local government for taxes.	10,934,000.00		
	Received from sale of Shares to employees		146,000.00	22,214,000.00
	Dividends paid to Shareholders	4,109,000.00		22,360,000.00
Dec 31/77				\$18,251,000.00

A TRIBUTE TO ITS PEOPLE

With the acquisition of a sawmill by Donald Fraser at River de Chute, the enterprise that is now Fraser Companies, Limited began in 1877. It has operated continuously and grown over 100 years. By 1916, Donald Fraser and his sons, Donald and Archibald, who had come as Scottish immigrants to New Brunswick in 1873, had built the largest lumber business in the province and one of the largest in all of Canada. Two years later a modern pulp mill was constructed at Edmundston and in 1925 a paper mill was constructed at Madawaska, Maine, to be followed by a second pulp mill at Atholville on the Restigouche River, and a third at Newcastle on the Miramichi River. Meanwhile, other sawmills were purchased and built, and extensive woodlands acquired. Today, Fraser operates sawmills at Plaster Rock and Kedgwick, and produces pulp at Edmundston and Atholville, boxboard at Edmundston and paper at Madawaska.

It was not a century of uninterrupted growth and pros-

perity for the Company. There were periods of trouble and great difficulty, notably in the depression years of the 1930's, when the Company went into receivership and, periodically, when markets for pulp and paper declined. But, the history of the Company's first hundred years is a story of continuous renewal, not only of its woodlands and mills, but of its people who faced the difficulties and made renewal possible. Today, Fraser is engaged in an extensive program of modernization of all its operations and is a strong and profitable component of the Canadian forest products industry. The story of the first century is told in greater detail in an anniversary brochure en-

titled "Reflections 1877 - 1977", and an account of progress in the modernization is given elsewhere in this report.

The year 1977 was both a time for reflections and a time to look ahead. Centennial Celebrations were held at each plant to note the achievements of the Company's first century and to move hopefully into its second. These celebrations also provided an opportunity to pay tribute to Fraser people who made the achievement possible and will make the hopes for the future come true. The anniversary brochure is dedicated "to all Fraser people, past and present, who have contributed to the company's growth; beginning with Donald



Madawaska open house

Safety award presentation at Atholville



N.B. Minister of Commerce & Development visits Kedgwick

Fraser in 1877 and including the more than 3,000 people now working for Fraser".

The Centennial Celebrations were enjoyed by both Fraser people and by the communities where Fraser plants operate. In August, the Madawaska paper mill held a week-long Open House and closed the celebrations

A TRIBUTE TO ITS PEOPLE

with an outdoor gala. Miss Madawaska assisted in the drawing of prizes for employees and one of the local Union Presidents came dressed as the Fraser Voyageur, a long-respected Fraser trademark, and part of the Company's new logo adopted in 1977 to recognize its centenary. The Madawaska Keystone Cops lent their support for crowd control and fun and frolic.

On Labour Day, the Atholville mill had a field day for employees and their families and friends, which concluded with an old-fashioned chicken barbecue and the drawing of prizes. Rain which descended during the barbecue did not dampen the enthusiasm and enjoyment.

In October, despite the massive construction under way at the Edmundston mill, there was a two-day Open House when 3,500 people from the area made the tour. Here again, many

prizes were drawn for employees and the event was noted in a province-wide supplement in The Telegraph-Journal and in Le Madawaska during that week.

At each of the many woodlands camps, the centennial was celebrated by a birthday party on October 7th when Fraser birthday cakes were produced by the camp cooks and each employee received a Thanksgiving turkey.

Former employees, who had contributed so much to the life of the Company, were not forgotten. In early November, a banquet attended by 500 retired employees and their wives was held at Edmundston. It was a happy occasion when many anecdotes of the past were exchanged and old friendships renewed.

On December 9th, dedication ceremonies and an Open House were held at the renovated Kedgwick sawmill with numerous dignitaries attending and participating in the ceremonies. The parish priest, Reverend Armand Plourde, blessed the buildings and the event. The two Miller brothers, Allan and Bill, who had owned the Kedgwick sawmill, returned after 10 years to see the many changes that had taken place in a decade. When they sold it to Fraser it produced about 10 million board feet of lumber per year and it is now turning out 40 million board feet annually.

In early 1978, the Centennial Celebrations drew to a close at the Plaster Rock sawmill. This was an appropriate finale to the events that marked the 100th birthday of the Company. The Plaster Rock sawmill is the last existing one of those bought or constructed by Donald Fraser. It has been rebuilt several times, most recently in 1973 when construction of a completely new sawmill was begun and completed in January 1978, when the new planer mill went on line.



Company outing



Presentation of turkeys for Thanksgiving



Voyageur escorts Miss Madawaska



Keystone cops for fun & crowd control

A TRIBUTE TO ITS PEOPLE

The Plaster Rock sawmill's history illustrates the physical renewal of Fraser plants and facilities - an essential process for any company that intends to remain vigorous and profitable in a competitive world. But physical renewal is not enough. The most modern and efficient machines will not operate well without skilled and dedicated people at all levels from top management to the newest junior employee. Fraser is very fortunate in the people it has - all 3,000 of them.

The Centennial Celebrations in 1977 provided a unique opportunity to tell Fraser people and the communities in which they work about the Company, its achievements, its problems, and its plans and hopes for the future. It is a continuing goal for the Company to extend its communications and interaction with its people and their communities. It is not something that occurs once every hundred years but is a constant process each and every year.

Again in 1977, Fraser enjoyed uninterrupted good and constructive labour relations. A one-year contract with the employees at the Kedgwick sawmill was the only labour agreement negotiated during the year. While a jurisdictional question concerning union representation for the Edmundston woods employees is still under judicial review, woods operations throughout 1977 were carried out in a normal and efficient manner.

Fraser recognizes its responsibilities to provide the safest possible working conditions for its employees and to assist in upgrading their training and skills. Extensive and continuing efforts to eliminate accidents and improve the safety experience in all operations met with significant success in 1977. An overall reduction of accidents of more than 30% was achieved. The Edmundston mill with a reduction in frequency from 25.7 in 1976 to 4.3 was outstanding, especially in view of the extensive construction in progress. Reductions in accident frequency

at the Kedgwick mill from 19.8 to 6.6 and in the Edmundston woods from 14.9 to 7.4 were also great achievements. There was a single unfortunate accident at the Atholville mill in December, which resulted in 4 lost time injuries, but the safety record there was outstanding - starting in 1976 Atholville operated for 396 days without a lost time injury.

The scholarship program continues to assist in the education of children of Fraser employees, and students residing in the areas of Fraser manufacturing operations. In addition, during 1977, as part of the major construction at Edmundston, a modern and functional training centre was established. Scale models of much of the new pulping and recovery facilities are used to keep operations abreast of new developments, and provide advance training in the operation of the new facilities. As construction continues in 1978, so will the training.



Dinner party for former employees

Renewing old friendships



Kedgwick festivities



Planning meeting



Mill tour at Edmundston



Happy occasion

MODERNIZATION

The current program is a major rebuilding of the pulp mill at Edmundston. The principal objectives to be achieved through the conversion and modernization of the pulp mill are increased production capacity, improved product quality, improved wood yield, reduction of the energy and chemicals lost in the present process and compliance with current environmental and ecological standards. Modernization of the two large sawmills is substantially completed (as described elsewhere in this report). The larger project at the Edmundston mill, approved in February 1976, made satisfactory progress during 1977 and is on schedule.

Progress at Edmundston is shown in the following table:

	Dec.'77	Dec.'76
Engineering	97%	42%
Procurement of Equipment	93%	62%
Procurement Overall	72%	36%
Construction	66%	9%

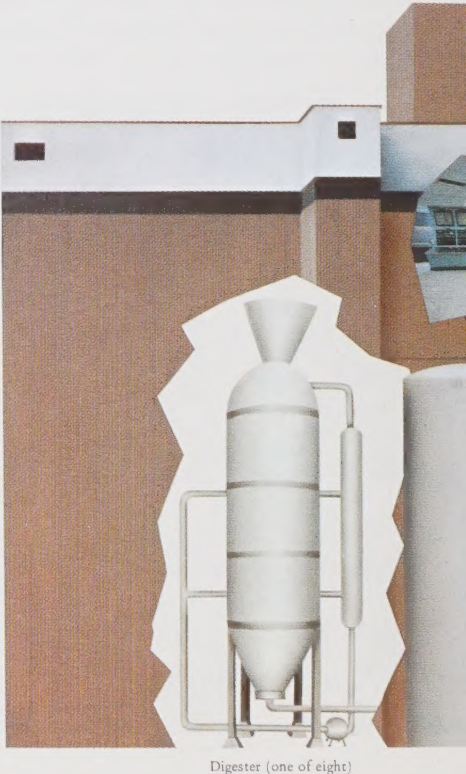
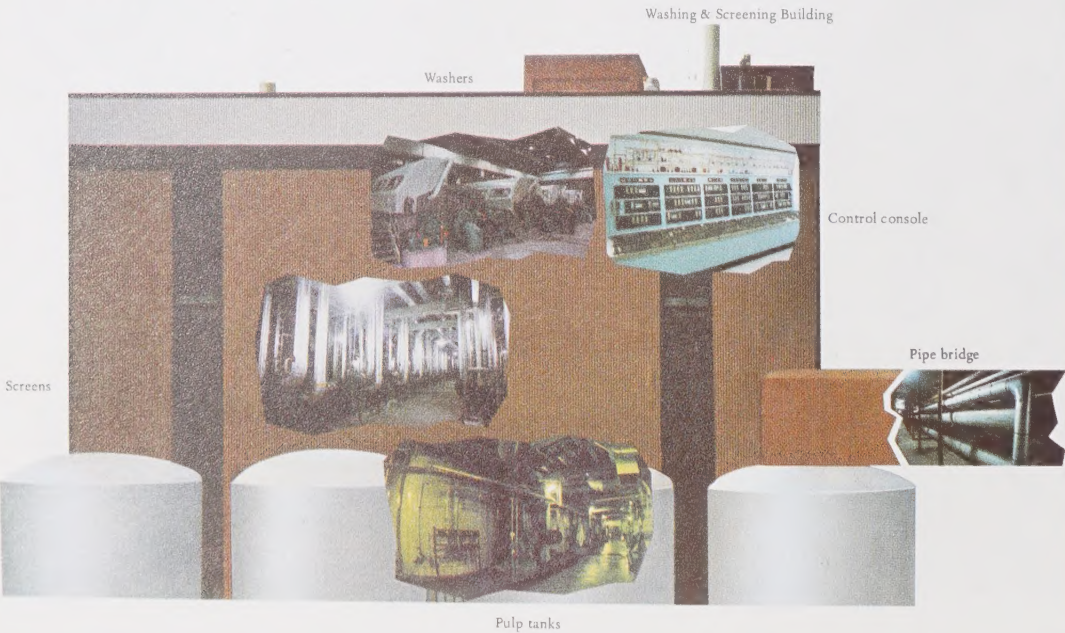
The Washing and Screening section was 94% complete at year-end and went into operation in February 1978, with minimum start-up problems.

The rebuilding of the Digester area was 84% complete at year-end. The project involves relining digesters, installing circulation and indirect heating on all digesters, and constructing an extension to the building to house a modern operating control room for all the digesters. As work progressed during 1977, it became clear that the digester house had deteriorated structurally and its rebuilding had to be accelerated, together with the installation of a pneumatic chip handling and belt distribution system. This is a most complex engineering and construction project, involving building a new steel structure on top of the existing digester building, and removing the old roof while at the same time maintaining production. Progress to date is on schedule and start-up in July 1978 is expected.

Work on the new Recovery complex was 28% complete at the year-end, and should be ready for start-up in January 1979. Excavation started in February 1977, and by December 31st, 2,500 tons

of steel had been erected, the main portion of the building enclosed, and the condenser and all evaporators placed on the steel. Erection of the world's largest MgO boiler began inside the building late in September and is progressing on schedule. The program will enable the Edmundston mill to meet all environmental requirements for effluent discharge and air emission when the complex becomes operational in 1979. A draft certificate of approval issued by Environment New Brunswick under the Water Quality regulations has now been received and sets out the terms and conditions which will govern the operation of the modernized and expanded pulp mill at Edmundston.

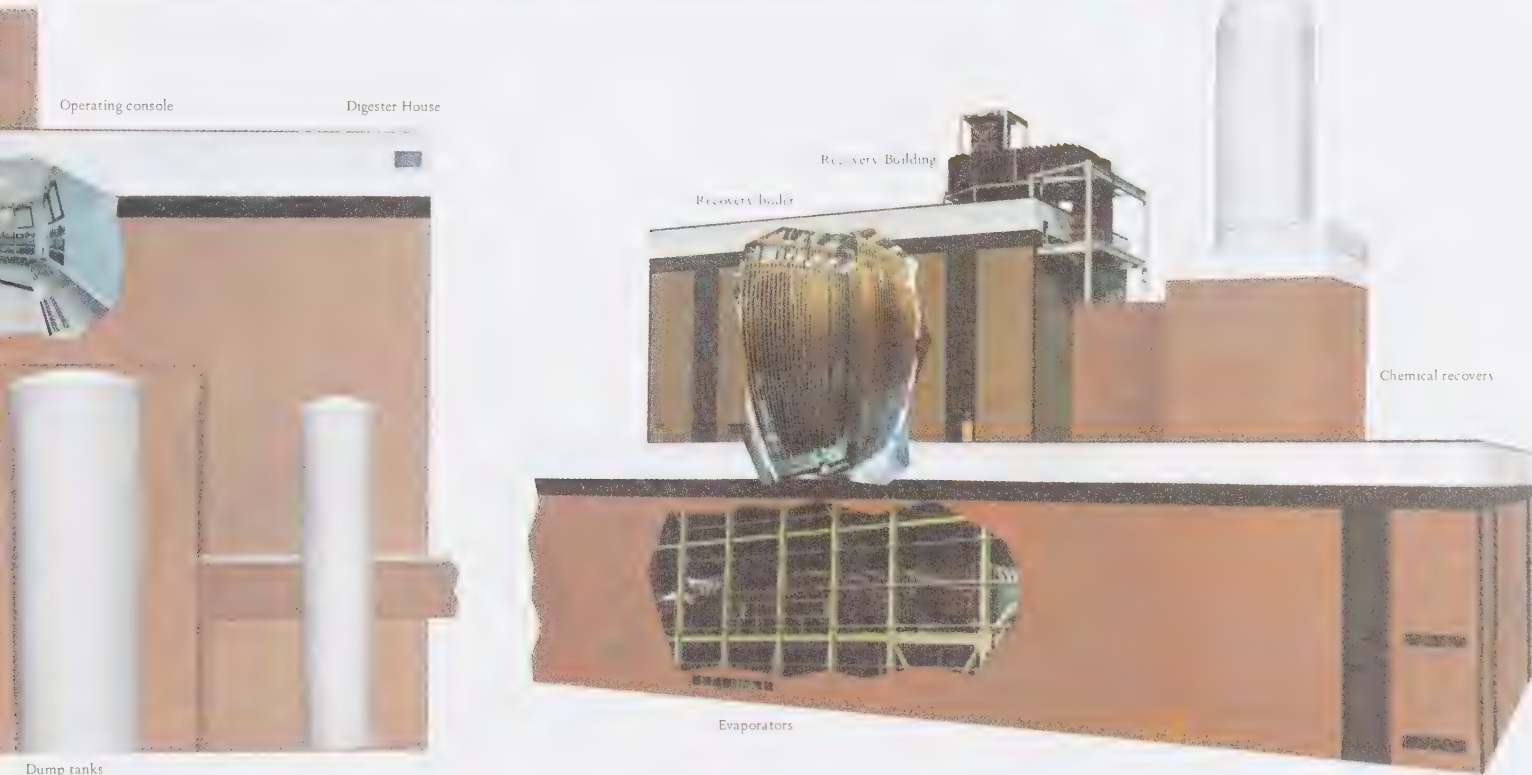
Safety during the construction period has received special attention with successful results; the accident frequency rate of 18.3 on the job compares favorably, with the New Brunswick construction average of 46.7.



MAP OF OPERATIONS



- LEGEND**
- WOODLANDS
 - WOODS OPERATION
 - AIR STRIP
 - SAW MILL
 - PULP MILL
 - PAPER MILL
 - HIGHWAY
 - RIVER



WOODLANDS

Someone once remarked that the main cause of forest fires is trees. It is equally obvious to note that the basic resource of a forest products company is trees. Our forest assets require constant protection and sound harvesting to provide an assured fibre supply to the mills.

In 1977, the Woodlands Department met total fibre requirements of 627,000 cunits and maintained inventories at lowest practical levels. The volume of wood supplied was almost exactly the same as in 1976, but its sources were somewhat different. The proportion from Company limits was down by about 15% and purchased wood correspondingly higher. The share provided in the form of chips was slightly higher and amounted to 64% of total fibre supply in 1977.

Capital expenditures in woodlands amounted to \$633,361, not including those on the Forest Tree Nursery of \$390,650.

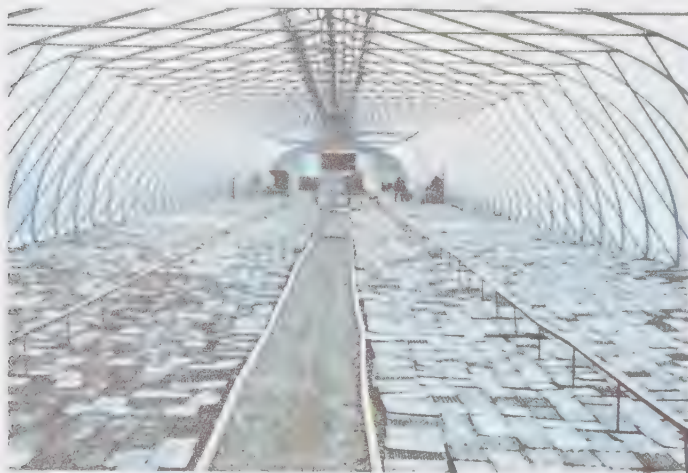
FOREST TREE NURSERY

There were major developments at the Forest Tree Nursery at Second Falls. In the spring a greenhouse with a capacity for growing 853,000 seedlings per crop was erected, and an experimental crop of 500,000 seedlings was planted. At the end of the growing season, the crop was estimated at 360,000 seedlings and various causes of loss were identified. During the fall two additional greenhouses were erected, increasing nursery capacity to 7 million seedlings if two crops are grown each year. An administration centre was substantially com-

pleted by year-end, and additional machines and equipment acquired.

FOREST INVENTORY AND SILVICULTURE

The forest inventory program which was started in 1976 is continuing to develop. The principal objective of the program is to intensify the New Brunswick forest inventory on Company limits, by measuring the growth and standing inventory of typical forest stands as they change over time. Some 300 permanent sampling points have been established. The information will be used to complement photo-interpretation and field inspection and to set silvicultural priorities. It is expected to increase substantially the allowable annual cut, by identifying stands of slow growth and low volumes for harvest and re-



Modern camp dining area



A planning session



Modern mobile trailer woods camp

forestation.

In 1977, numerous steps were taken to improve woodlands operations and apply silvicultural techniques, some on an experimental basis. In advance of planting in 1978, 860 acres were treated with various site preparation machines and an additional 640 acres were treated, at cost, for the New Brunswick Department of Natural Resources. Approximately 3,500 acres of cut-over forest were inspected to select 8,000 acres for future site preparation. Experiments in direct seeding using pelletized seeds were continued in 1977, and provisional results may be expected next fall. Collection of black spruce cones continued to add to the supply obtained in two previous winters and the seeds have been placed in refrigerated storage. In addition, work continued in tree improvement by the selection of superior black spruce trees and stands, with a view to thinning and fertilization to increase seed production and quality.

SPRUCE BUDWORM

Spruce budworm infestation of New Brunswick forests is still a major concern and cost to the Company.

The 1977 forest spraying program covered 4.4 million acres and was undertaken over a period of 37 days between May 22nd and June 27th. The area sprayed on Fraser limits was 933,000 acres at a cost to the Company of \$531,000.



Woods road maintenance grader



Woodlands review session



Tanguay slashmobile

In 1978, the Fraser acreage planned to be sprayed is approximately the same - 938,000 acres - at an estimated cost of \$600,000.

CAMP & ROAD CONSTRUCTION

The first in a new series of modern mobile trailer woods camps came into operation in August. It provides large kitchen and dining facilities, as well as substantial recreational areas. A separate office building includes a small meeting room and housing for supervisory personnel. Separated sleeping units consist of five 10-man trailers, with two men to a room, and washing and drying facilities. The second and third camps in this program are planned for 1979 and 1980.

Upgrading of our primary road system continued during 1977 at a total expenditure of \$454,000. The program in the Edmundston district is nearing completion and that in the Plaster Rock district should be met during the next three years.

MECHANIZED HARVESTING

During the past year, six large units were added to the Fraser fleet of mechanical harvesting equipment and have performed in production and availability well above forecasts. Two other machines were rented on an experimental basis for a three-month period.



A tempting treat

WOOD PRODUCTS

The Wood Products Group is responsible for the operation of Fraser's two large sawmills at Kedgwick and Plaster Rock. In its second full year as an operating unit, both mills ran at full capacity and produced 67,653 Mfbm and shipped 63,849 Mfbm of lumber in 1977. Production was maintained while major modernization at both mills was undertaken.

At Kedgwick, the sawmill and planer mill were completely overhauled and fitted with modern equipment. A new high-temperature dry kiln was built, which along with the existing low-temperature dry kiln, will be able to dry all the lumber sawn at the mill. As a result of this modernization

program at Kedgwick, the capacity of the mill will be increased to 175 thousand board feet a day from its former daily capacity of 112 thousand board feet.

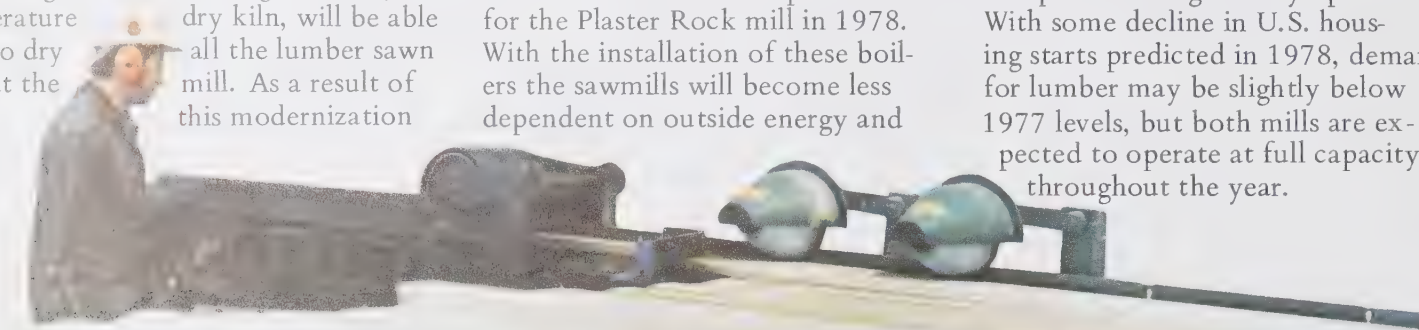
Through improvements in the sawmill at Plaster Rock, the daily capacity has been increased from 146 thousand board feet to 190 thousand board feet. To keep pace with the additional capacity a new planer mill came on line in February 1978.

Three additional waste heat boilers were installed at the Kedgwick mill earlier this year and two additional ones are planned for the Plaster Rock mill in 1978. With the installation of these boilers the sawmills will become less dependent on outside energy and

the consumption of fuel oil will be substantially reduced.

It is planned to install computerized scanning equipment at both sawmills in 1978 to obtain better lumber recovery from the logs. When the modernization program is completed, Kedgwick and Plaster Rock will be the two largest lumber mills in the Maritime Provinces.

Markets for wood products are volatile and 1977 was no exception. However, the sawmills operated at full capacity during the year, and the trends of demand and prices were generally upward. With some decline in U.S. housing starts predicted in 1978, demand for lumber may be slightly below 1977 levels, but both mills are expected to operate at full capacity throughout the year.



Dressed lumber



New Kedgwick dry kiln



Plaster Rock sawmill - new planer mill in foreground

The forest products industry, only produces what it can sell. However, in 1977, despite less than buoyant economic conditions, Fraser was able to obtain a sufficient share of the market demand for fine papers, boxboard, pulp and lumber to maintain mill production virtually at capacity.

Conservation of energy continues as a top priority. Under the direction of an Energy Coordinator, total energy consumption was reduced by 6% compared to 1976, for a saving of \$1.8 million. At Edmundston, there was a reduction of over 10%, chiefly by the burning of bark. At Atholville, purchased energy dropped by 6%. Various problems connected with bark burning were solved during the year. Studies are continuing at Madawaska into the use of alternate fuels for plant steam generation, in line with our original long-range energy supply plans.

Capital expenditures in 1977 totalled nearly \$46 million and capital commitments at the year-end amounted to an additional \$50 million. Approximately \$5 million went towards ordinary maintenance and the balance to major projects of which the Edmundston modernization accounted for over \$35 million.

The most urgent operating question facing the Company is to find a solution for the problems of the Atholville mill. It is operating at a loss and faces serious environmental difficulties. The purchased pulp market, on which it partly depends, is weak and unlikely to improve significantly in the next year or two. Detailed studies by Jaakko Poysy & Co.

for converting the Atholville mill to the magnesium sulphite cooking process showed uneconomic results under present and foreseeable market conditions. Other studies to reduce costs or improve marketability showed equally unsatisfactory returns on investment. Meanwhile capital expenditures on the mill have been held at minimum levels to maintain production.

GROUNDWOOD PAPERS

Groundwood papers provided 53% of paper shipments. Fraser facilities for their production operated at full capacity throughout the year, and a total of 206,173 tons of various groundwood grades were shipped to markets mainly in the United States and Canada.

Stock preparation system control console



Two-roll calender stock

OPERATIONS AND MARKETS

The developments in the market fostered a strong demand for these grades. Our lightweight uncoated groundwood papers performed well for catalog and directory customers. Their business is growing as catalog buying is becoming increasingly popular and more sophisticated. The trend to four colour reproduction is accelerating and demand is growing for paper with good reproductive characteristics, which Fraser pulp qualities and paper making skills provide. Our groundwood papers give directory and catalog customers an innovative solution to control increasing postal and transportation costs.

The market for coated groundwood papers for use in magazines and catalogs was also strong. After years of sluggish growth and declining shares of advertising dollars, magazines have had a genuine revival and are gaining an increasing share of advertising expenditures. Fraser was able to respond to this demand with on-time deliveries of papers with impressive printing qualities.

We expect 1978 to be another good year for groundwood grades.

FINE PAPERS

In 1977, there was a general improvement in markets for fine papers over the two previous years. Fraser's operating rate in this sector increased from 93% to over 98%, despite a pause in the U.S. economic recovery and new capacity at competitors' plants that came into production about a year ago. Shipments of all fine paper grades totalled 178,684 tons in 1977.

An intensive program of market research and product development was undertaken to diversify Fraser's product line. Significant improvements in our established grade of lightweight opaque bond - known as "Kopy Klear Opake" - enabled Fraser to increase its market share of this grade. There was increased acceptance of our lightweight, high opacity offset sheet - known as "BP Opaque" - by book publishers and producers of high-grade catalogs.

Increased emphasis was given in 1977 to research and development of specialty grades. To support Fraser's entry into the specialty

coated market, a billblade coater for No. 3 machine will be installed and a laboratory coater was acquired. This new equipment will permit on-machine application of various technical coatings which will open new market opportunities and enable development in the laboratory of new grades.

In view of this activity and the low inventory situation at the end of 1977, the prediction for 1978 is that fine papers will continue to improve as the U.S. economy slowly expands.

In May, a two-roll stack was installed on No. 2 paper machine to develop a better, more uniform sheet, and several other machine improvements have reduced paper defects and raised quality and uniformity levels.

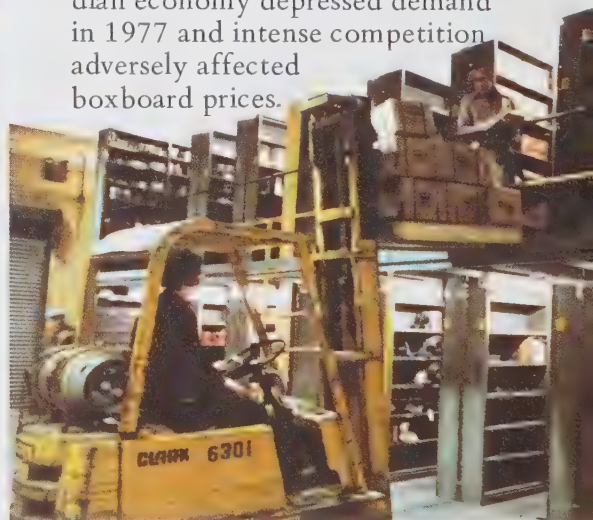
BOXBOARD

The boxboard operation at Edmundston is a smaller, but important, unit that provides coated and uncoated folding boxboard to a wide variety of packaging converters in Eastern Canada. It operated during 1977 at 99% of capacity and shipped 31,539 tons.

As demand for packaging materials is closely related to business conditions, the sluggish Canadian economy depressed demand in 1977 and intense competition adversely affected boxboard prices.



No. 8 high speed groundwood specialty paper machine



OPERATIONS AND MARKETS

Despite a major effort to reduce costs by increased use of secondary furnish and lower cost pulps, the division was unable to generate a profit last year.

An entirely new coated board was introduced during the year and was well received by customers. Further work will be done to ensure consistent uniformity and high quality.

PULPS

Fraser makes pulp at Edmuntston for use in its paper and board operations, and at Atholville partly for its own internal use and partly for sale in the open market. In 1977, the Atholville

mill operated at 81% of capacity and shipped 86,760 tons of pulp of which 20,219 tons was market pulp. This was an improvement over 1976 when the mill operated at 74% of capacity and shipped 70,840 tons of which 9,934 tons were sold in the market.

The world market for pulp is weak, producer inventories are high and customer inventories are held at minimum levels. There

has been serious erosion of pulp prices and demand is spotty, especially for bleached sulphite. These unsatisfactory conditions are likely to continue throughout 1978 and probably into 1979.

As a result of low operating rates, poor demand and environmental problems at Atholville, the mill operated at a loss in 1977, and 66 days of down-time were unavoidable.



Mill stores



Customer orientation program

FINANCIAL REVIEW

For the year 1977, Fraser experienced record sales and net earnings were the second highest ever.

Net sales climbed 18% to \$212,490,000 from \$180,654,000 last year. Net earnings increased 25% to \$13,853,000 or \$5.90 per share compared with \$11,051,000 or \$4.71 per share in 1976.

The significant premium value of the U.S. dollar over the Canadian dollar accounted for \$2.34 per share of this year's earnings, of which 78¢ represents an unrealized exchange gain arising from balance sheet translation procedures. Last year foreign exchange reduced earnings by 53¢ per share. This swing highlights the transitory nature of earnings related to currency fluctuations, which are no real answer to basic economic deficiencies.

In 1977 the effective income tax rate was approximately 39% against 33% in 1976. This year, taxes on income were reduced by \$622,000 from the application of Canadian and U.S. federal investment tax credits, and by \$192,000 attributable to the new 3% inventory allowance. Investment tax credits of \$2,132,000 were utilized last year.

Return on average shareholders'

equity was 12.8% compared with 11.1% in 1976. This improvement is most welcome, however, the return is still not very satisfactory when adjusted for the erosion caused by inflation.

Funds provided from operations this year increased 30% to \$27,466,000 or \$11.69 per share.

Dividends were increased in 1977 as permitted under the AIB regulations, resulting in total dividend payments this year of \$4,109,000 or \$1.75 per share compared with \$3,821,000 or \$1.63 per share last year.

Long-term debt was reduced during the year by \$811,000, leaving \$42,901,000 outstanding at year-end. This is equivalent to 37.9% of shareholders' equity and 27.5% of total capitalization.

At year-end total working capital was \$43,008,000, down from the end of 1976 by \$21,801,000. Cash was lower by \$25,785,000 as a result of the heavy capital spending program. Operating working capital at the end of 1977 was up to \$25,577,000 from \$21,530,000 a year ago.

Net additions and improvements to plants and properties rose from \$23.1 million last year to a record \$44.5 million, which includes \$36.7

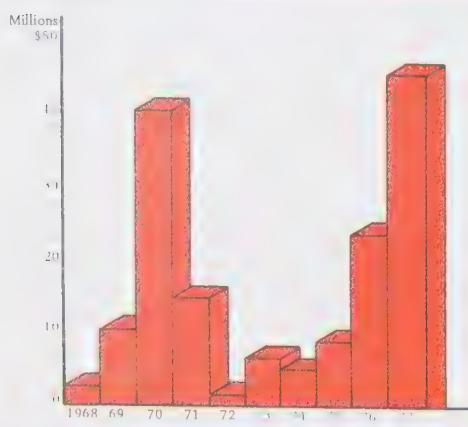
million spent on the Edmundston pulp mill modernization program and related jobs. The major \$91 million program at Edmundston continues to progress on schedule and within budget. A total of \$3.7 million was spent on modernization and improvement projects at the sawmills.

Total assets of the Company reached the \$200 million mark at the end of 1977, due primarily to a huge increase in net fixed assets during the past two years from \$76 million to \$128 million. It is significant to note that the net fixed assets figure includes approximately 750,000 acres of freehold timberlands at a value of \$196,000 which is equivalent to about 26¢ per acre.

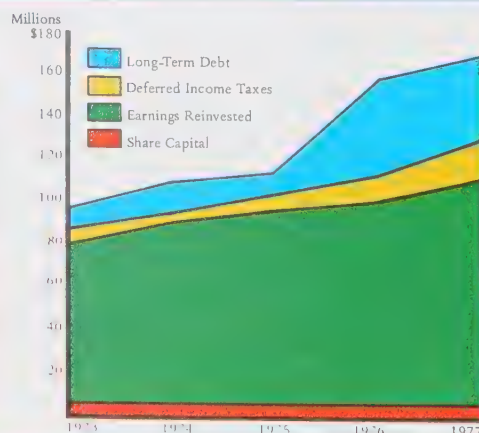
At year-end shareholders' equity amounted to \$113,300,000 or \$48.23 per share, up from \$103,437,000 or \$44.12 per share at the end of 1976. In the last five years shareholders' equity has increased 68%.

Fraser Companies, Limited is subject to the Anti-Inflation Program legislation with respect to prices, profits, compensation and dividends. Based on available information the Company was in compliance with the program in 1977, and the necessary measures will continue to be taken to ensure future compliance.

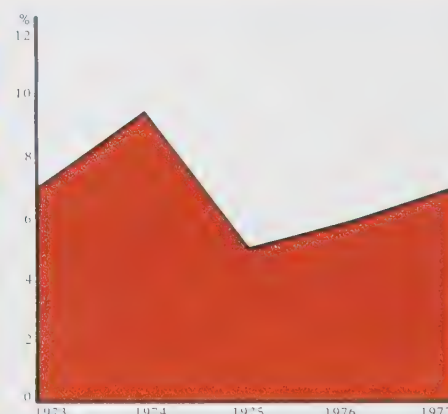
NET ADDITIONS TO PLANTS AND PROPERTIES



CAPITALIZATION



RETURN ON SALES



FRASER COMPANIES, LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF
FINANCIAL POSITION

As at December 31 (in thousands of dollars)	1977	1976
Current assets:		
Cash, short-term deposits and commercial notes	\$ 18,251	\$ 44,036
Accounts receivable	19,515	15,638
Inventories (note 2)	32,096	27,710
Prepaid expenses	809	564
Total current assets	70,671	87,948
Current liabilities:		
Accounts payable and accruals	26,218	19,439
Income taxes payable	625	2,943
Long-term debt due within one year	820	757
Total current liabilities	27,663	23,139
Working capital	43,008	64,809
Due under Stock Purchase Plan (note 6)	199	203
Income taxes (note 3)	664	653
Fixed assets (note 4)	128,409	91,859
Deferred financing expenses	346	370
Working capital and other assets employed	172,626	157,894
Long-term debt (note 5)	42,901	43,712
Deferred taxes on income	16,425	10,745
	59,326	54,457
Shareholders' equity (note 6)	\$113,300	\$103,437
Represented by:		
Capital stock	\$ 6,104	\$ 5,985
Retained earnings	107,196	97,452
	\$113,300	\$103,437

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Adam H. Zimmerman



John P. Fisher

FRASER COMPANIES, LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF
EARNINGS AND RETAINED EARNINGS

Year ended December 31 (in thousands of dollars)	1977	1976
Earnings:		
Net income	\$212,490	\$180,654
Cost of sales	172,862	149,514
Depreciation and depletion	7,909	7,542
Selling, general and administrative expenses	9,827	8,080
	190,598	165,136
	21,892	15,518
Other income (expenses):		
Interest income (note 7)	469	1,260
Interest on long-term debt (note 7)	(501)	(468)
Miscellaneous - net	1,005	113
	973	905
Earnings before income taxes	22,865	16,423
Taxes on income (note 8)	9,012	5,372
Net earnings	\$ 13,853	\$ 11,051
Earnings per Class "A" and Class "B" share	\$ 5.90	\$ 4.71
Retained earnings:		
Balance at beginning of year	\$ 97,452	\$ 90,222
Net earnings	13,853	11,051
	111,305	101,273
Dividends paid - \$1.75 per share (1976 - \$1.63)	4,109	3,821
Balance at end of year	\$107,196	\$ 97,452

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated statement of financial position of Fraser Companies, Limited and subsidiaries as at December 31, 1977 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such

tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries as at December 31, 1977 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted

accounting principles applied on a basis consistent with that of the preceding year.

Leat, Mannick, Mitchell & Co.

Chartered Accountants

Montreal, Canada
February 15, 1978.

FRASER COMPANIES, LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF
CHANGES IN FINANCIAL POSITION

Year ended December 31 (in thousands of dollars)	1977	1976
Source of funds:		
Net earnings	\$13,853	\$11,051
Add items not requiring expenditure of funds:		
Depreciation and depletion	7,909	7,542
Deferred taxes on income	5,680	2,538
Amortization of financing expenses	24	16
Funds provided from operations	27,466	21,147
Issue of Series B debentures	-	35,612
Stock Purchase Plan	123	56
Total funds provided	27,589	56,815
Application of funds:		
Income taxes (note 3)	11	653
Financing expenses - Series B debentures	-	386
Additions and improvements to plants and properties - net	44,459	23,144
Redemption of long-term debt	811	809
Dividends	4,109	3,821
Total funds used	49,390	28,813
Increase (decrease) in working capital	(21,801)	28,002
Working capital at beginning of year	64,809	36,807
Working capital at end of year	\$43,008	\$64,809

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1977.

1) ACCOUNTING POLICIES:

The company and its subsidiaries follow accounting principles which are generally accepted in Canada. A summary of significant accounting policies of the Company is set out below.

Basis of presentation of financial statements:

The accompanying financial statements include on a consolidated basis the accounts of the Company and its subsidiaries, all of which are wholly-owned. The principal operating subsidiary is Fraser Paper, Limited which owns and operates a paper mill in Madawaska, Maine.

Foreign exchange:

Current assets and liabilities in foreign currencies are translated into Canadian dollars at exchange rates prevailing at balance sheet dates except for those amounts covered by forward sales of other currencies, for which contracted rates are used. Long-term debt is carried at the Canadian dollar proceeds received and fixed assets at exchange rates in effect at the transaction dates. Income and expenses are translated at average rates prevailing during the year except for depreciation which is translated at the rates prevailing when fixed assets were acquired. Gains or losses on foreign exchange are reflected in the statement of earnings.

Inventories:

In general, pulpwood and logs, raw materials and supplies are carried at cost or replacement cost whichever is lower. Goods in process and finished products are valued at the lower of cost and net realizable value.

Fixed assets:

The costs of additions, betterments and renewals are capitalized and expenditures for maintenance and repairs are charged to expense.

Government grants received in connection with the construction or expansion of production facilities are credited to the cost of such assets. At the time of disposal or retirement of plant and property, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in the statement of earnings.

NOTES (CONTINUED)

Buildings, machinery and equipment are depreciated, generally on a straight-line basis, at rates estimated to amortize the cost of each asset over its economic life. Rates in use for the principal classes of such assets are as follows:

Buildings	2 1/2%
Production machinery	6 1/4%
Automotive and mechanized woods equipment	10% to 25%

Logging roads, bridges and camp facilities are written off on a straight-line basis over 10 years and amortization of timber limits is determined on a basis related to production.

Financing expenses:

Expenses relating to the issue of long-term debt are amortized on a straight-line basis over the term of the debt.

Interest:

Interest expense is charged against income as incurred, except where it can be identified with a major capital expenditure program. Such interest is capitalized during the construction period, net of any related revenue from temporary investment of borrowed funds held for capital expenditures.

Research and development:

Research and development expenses are charged against earnings as incurred.

Investment tax credits:

Canadian and U.S. federal investment tax credits are recognized as a reduction in the provision for income taxes in the years in which such credits are claimed for tax purposes.

Earnings per share:

Earnings per share are calculated using the weighted average number of shares outstanding during the year.

2) INVENTORIES:

Pulpwood and logs, including advances
Raw materials and supplies
Goods in process and finished products

1977	1976
(\$000's)	
\$ 12,931	\$ 10,997
13,845	10,967
5,320	5,746
<u>\$ 32,096</u>	<u>\$ 27,710</u>

3) INCOME TAXES:

The company has received re-assessments for the 1970 through 1973 taxation years with respect to the treatment of certain income for tax purposes in 1970 and 1971. The Company disputes the position taken by Revenue Canada and income taxes assessed and paid have been treated as recoverable pending the outcome of appeals against the assessments. If the appeals are unsuccessful, this amount will be written off against retained earnings.

4) FIXED ASSETS:

Plants and properties
Less accumulated depreciation

Freehold and leasehold properties
Less accumulated depletion

1977	1976
(\$000's)	
\$245,060	\$202,224
116,847	110,610
<u>128,213</u>	<u>91,614</u>
7,928	7,947
7,732	7,702
<u>196</u>	<u>245</u>
<u>\$128,409</u>	<u>\$ 91,859</u>

5) LONG-TERM DEBT:

Sinking Fund Debentures:

6 1/8% Series A due 1987 - \$6,750,000 U.S.
10 3/4% Series B due 1992 - \$35,000,000 U.S.

1977	1976
(\$000's)	
\$ 7,289	\$ 8,100
35,612	35,612
<u>\$ 42,901</u>	<u>\$ 43,712</u>

Repayments, in U.S. dollars, required on the Sinking Fund Debentures over the next five years are \$750,000 per annum in each of the years 1978 to 1980 inclusive and \$3,080,000 in 1981 and 1982. The Sinking Fund Debentures are secured by a floating charge on the assets of the Company.

6) SHAREHOLDERS' EQUITY

Capital stock - convertible common shares without nominal or par value:

	Authorized
Class "A"	5,000,000 shares
Class "B"	5,000,000

	Issued
Class "A"	2,207,922 shares
Class "B"	141,480

The only distinction between the two classes, which are convertible into one another on a share for share basis, is that the

directors may specify that cash dividends on Class "B" shares be paid out of 1971 capital surplus on hand (as defined in the Income Tax Act).

Pursuant to the provisions of the Stock Purchase Plan whereby shares may be issued for the account of certain employees, including officers, at the discretion of the directors, 5,000 Class "A" shares were issued to the Trustee during the year for a consideration

NOTES (CONTINUED)

of \$119,000. Payment for shares issued under the Plan is made by employees in instalments so that the aggregate purchase price will be paid within ten years. At December 31, 1977 the Trustee held 10,365 Class "A" shares as collateral for the unpaid balances aggregating \$232,000 at that date.

Retained earnings:

At December 31, 1977, retained earnings included approximately \$43 million of 1971 capital surplus on hand. It is the intention of the directors, if, as and when dividends may be declared on the Class "B" shares, to specify that such dividends be paid out of this 1971 capital surplus.

The Trust Indenture pursuant to which the Sinking Fund Debentures were issued contains, among other usual covenants, a restriction on the payment of cash dividends. At December 31, 1977, approximately \$15.8 million of retained earnings was not subject to such restriction on distribution.

7) INTEREST ON LONG-TERM DEBT:

	1977	1976
	(\$000's)	
Total interest	\$ 4,590	\$ 2,431
Less charged to capital cost of expansion program	4,089	1,963
	\$ 501	\$ 468

The charge to the capital cost of the expansion program was reduced by \$1,920,000 (1976 - \$1,096,000) of interest income earned on temporary investment of borrowed funds not immediately required for project expenditures.

The charge to the capital cost of the expansion program was reduced by \$1,920,000 (1976 - \$1,096,000) of interest income earned on temporary investment of borrowed funds not immediately required for project expenditures.

8) TAXES ON INCOME:

Taxes on income have been reduced by \$622,000 (1976 - \$2,132,000) resulting from the application of Canadian and U.S. federal investment tax credits and by a further \$192,000 attributable to the 3% inventory allowance introduced in

1977. The net effect of Canadian investment tax credits which may be claimed against income taxes payable through 1982 and which has not been recognized in the accounts at December 31, 1977, is estimated to be \$2,400,000.

9) COMMITMENTS:

The capital cost of the Company's program to increase production capacity and efficiency and to meet prescribed environmental standards at Edmundston Mill over the years 1976 to 1979, is estimated at \$91 million. Of this amount approximately \$46 million has been paid or provided for in the accounts at December 31, 1977 and there were contractual commitments for a further \$17 million at that date. At December 31, 1977, contractual commitments for capital expenditures not forming part of the above program amounted to approximately \$3.5 million.

The Company and its subsidiaries lease office premises, equipment of various types and other facilities under agreements which, with minor exceptions, expire prior to 1986.

11) REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

Aggregate remuneration to persons who served as the Company's ten directors and as officers of the Company at any time during the year was as follows:

	1977		1976	
	10 Directors	12 Officers	13 Directors	14 Officers
Remuneration paid by:				
Fraser Companies, Limited	\$ 44,000	384,000	43,000	314,000
Fraser Paper, Limited	-	117,000	-	152,000
	\$ 44,000	501,000	43,000	466,000

At December 31, 1977, there were ten directors and twelve officers. Four officers of the Company were also directors.

12) ANTI-INFLATION LEGISLATION:

Fraser Companies, Limited is subject to, and believes it has complied with, anti-inflation legislation with respect to prices, compensation and dividends. The restrictions applicable to dividends will limit the common share dividend rate to a maximum of \$1.83 per share for the one year period ending October 13, 1978.

Annual rentals of approximately \$1.2 million are due in 1978 on leases in effect at December 31, 1977.

10) PENSION PLANS:

According to the latest actuarial reports on the Company's pension plans, there was an unfunded liability as of December 31, 1976 of \$5,516,000, due primarily to plan amendments in previous years, which will be amortized by annual payments of \$589,000 for twelve years as recommended by the actuaries.

Additionally, according to an actuarial valuation as of January 1, 1977 of the plans of Fraser Paper, Limited, there was an estimated unfunded liability at that date, calculated using the entry age normal cost method, of \$6,600,000 U.S. which is being amortized over periods of not more than forty years at approximately \$411,000 U.S. per annum. The actuarially computed value of vested pension benefits at January 1, 1977 exceeded the market value of assets by \$1,700,000 U.S.

EFFECTS OF INFLATION

The rate of inflation experienced by the Canadian economy remains an important factor to be considered in evaluating the financial results of a company. Presently a suitable method of measuring the impact of inflation has not been agreed upon in Canada, however, a committee appointed by the Province of Ontario has recommended an approach that attempts to measure the effects of inflation on the funds generated by a business. This approach is recognized as only an interim solution and represents a partial but important step toward the possible implementation of a full current value accounting system at some future time.

Application of the Ontario method to Fraser's 1977 results produces the following statement:

	<u>\$000's</u>	
During the year 1977 funds generated from operations totalled (from statement of changes in financial position)	\$ 27,466	
From this should be deducted the funds required to finance original cost of productive assets (historical cost depreciation)	<u>7,909</u>	
	19,557	
To take account of the increased cost of maintaining operating capacity in our inflationary environment requires the following allocation of funds:		
To replace inventories	\$3,200	
For plant, machinery and equipment	<u>6,200</u>	
	9,400	
Less additional funds which may be available from borrowing if present debt-equity ratio is maintained	<u>5,300</u>	<u>4,100</u>
Funds hypothetically available from the year's operations for distribution or expansion	<u>\$ 15,457</u>	

This statement indicates that Fraser did generate sufficient funds to maintain the viability of the business but not to the degree that traditional accounting records would indicate. To illustrate this, ignoring the funds that may be available from borrowing shown above (\$5,300), funds available from this year's operations in "real" terms were only \$10,157 which is 63% lower than the funds provided from operations as determined by using generally accepted accounting principles.

DIRECTORS AND OFFICERS



John M. Anderson



Carl E. Beigie



W. R. Clerihue



Kenneth V. Cox



H. Roy Crabtree



John P. Fisher



C. M. Frantz



Knut Grotterod



David J. Hennigar



A. H. Zimmerman

BOARD OF DIRECTORS

John M. Anderson
 Carl E. Beigie
 W. R. Clerihue *†
 Kenneth V. Cox †
 H. Roy Crabtree*
 John P. Fisher*
 C. M. Frantz
 Knut Grotterod
 David J. Hennigar*†
 A. H. Zimmerman*

HONORARY DIRECTORS

Aubrey Crabtree
 L. M. Sherwood
 Frank H. Sobey

OFFICERS

A. H. ZIMMERMAN
 Chairman of the Board
 H. ROY CRABTREE
 Vice-Chairman of the Board
 JOHN P. FISHER
 President
 K. GROTTEROD
 Senior Vice-President, Operations

* Member of Executive Committee
 † Member of Audit Committee

TEN YEAR COMPARISON

FOR THE YEAR

SALES AND EARNINGS DATA (\$000's)

	1977	1976	1975	1974	1973	1972
Net Sales	\$212,490	\$180,654	\$142,775	\$158,228	\$111,913	\$ 90,920
Interest on long-term debt	501	468	479	497	547	583
Depreciation and depletion	7,909	7,542	7,373	6,796	6,400	6,294
Selling, general and administrative expenses	9,827	8,080	7,015	5,665	4,787	4,450
Taxes on income	9,012	5,372	4,227	10,793	6,424	(685)
Net earnings (loss) from operations	13,853	11,051	7,212	14,892	7,753	(751)
Extraordinary items (net)	-	-	-	-	5,916	-
Net earnings for the year	13,853	11,051	7,212	14,892	13,669	(751)

FINANCIAL POSITION DATA (\$000's)

Working capital	43,008	64,809	36,807	35,467	21,763	11,741
Cash flow from operations	27,466	21,147	15,049	22,581	19,293	4,761
Net additions to plants and properties	44,459	23,144	9,186	5,886	7,310	1,909
Long-term debt at end of year	42,901	43,712	8,909	9,719	10,529	11,331
Deferred taxes on income	16,425	10,745	8,207	7,743	6,850	1,711
Shareholders' equity at end of year	113,300	103,437	96,207	92,746	81,054	67,441

PER SHARE DATA

Net earnings (loss) from operations per share	5.90	4.71	3.08	6.35	3.31	(0.31)
Extraordinary items (net) per share	-	-	-	-	2.53	-
Net earnings for the year per share	5.90	4.71	3.08	6.35	5.84	(0.31)
Dividends per share	1.75	1.63	1.60	1.40	0.60	0.10
Cash flow from operations per share	11.69	9.02	6.42	9.63	8.24	2.04
Common shareholders' equity per share	48.23	44.12	41.04	39.56	34.63	28.81

OTHER DATA

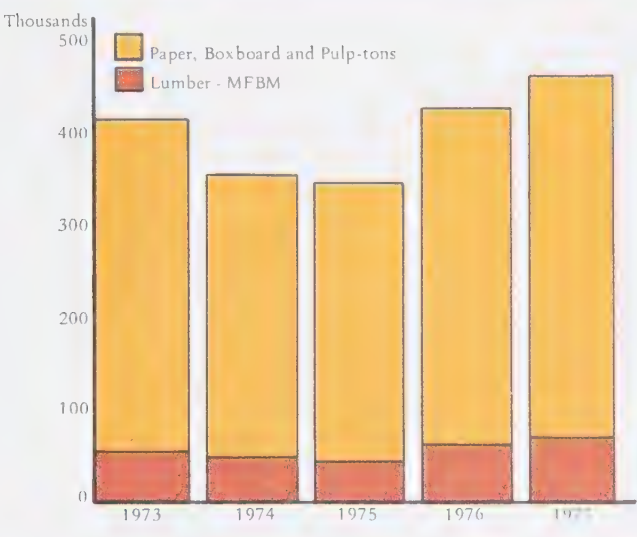
Common shares outstanding at end of year	2,349,402	2,344,402	2,344,402	2,344,402	2,340,652	2,334,802
Return on shareholders' equity - %	12.8	11.1	7.6	17.1	10.3	(1.1)
Average number of employees	3,353	3,183	2,906	3,340	3,228	3,420
Salaries, wages and benefits (\$000's)	64,641	53,915	43,412	36,149	28,931	30,658
Net fixed assets per employee (\$000's)	38	29	26	22	23	21
Net Sales per employee (\$000's)	63	57	49	47	35	27
Employees per million dollars of sales	16	18	20	21	29	39

QUANTITIES SOLD

Paper - tons	384,857	375,633	302,968	383,063	363,144	322,771
Boxboard - tons	31,539	32,628	30,326	32,389	31,625	29,118
Pulp - tons	20,219	9,994	12,191	10,533	20,229	49,151
Lumber - M f.b.m.	63,849	56,764	46,081	46,190	49,774	57,153

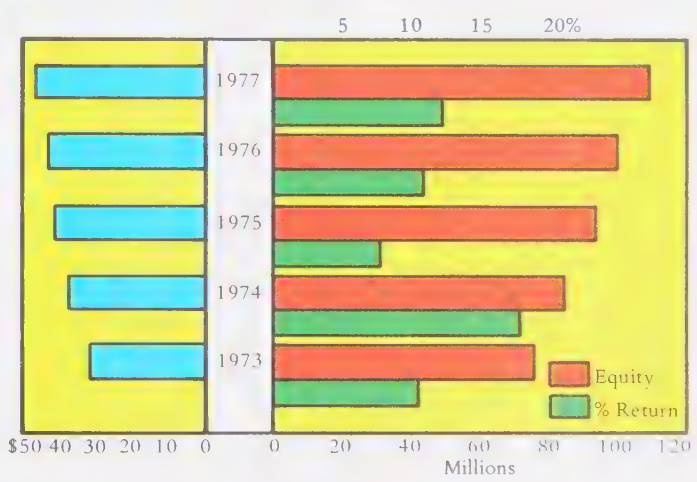
1971	1970	1969	1968
\$ 62,639	\$ 73,730	\$ 91,327	\$ 76,568
622	661	714	735
5,272	3,801	5,836	5,890
5,244	5,673	4,936	3,716
(5,648)	811	1,993	322
(4,856)	2,614	4,403	1,161
-	6,807	1,933	-
(4,856)	9,421	6,336	1,161
6,965	25,339	23,186	19,876
(4,349)	6,638	12,070	7,315
14,785	40,243	10,608	2,609
12,149	12,959	13,769	14,579
2,427	7,131	8,859	6,991
68,422	73,600	66,032	60,749
(2.08)	1.12	1.90	0.50
-	2.92	0.83	-
(2.08)	4.04	2.73	0.50
0.15	0.90	0.65	0.10
(1.86)	2.85	5.20	3.18
29.31	31.56	28.45	26.41
2,334,302	2,331,802	2,320,952	2,300,202
(6.8)	3.7	6.9	1.9
3,283	3,910	4,509	5,031
27,261	29,540	33,114	31,906
24	26	22	18
19	19	20	15
52	53	49	66
195,049	221,278	241,734	212,306
28,154	27,505	27,998	24,053
50,255	88,387	211,058	180,463
52,507	39,016	33,033	20,616

PRODUCTS SOLD

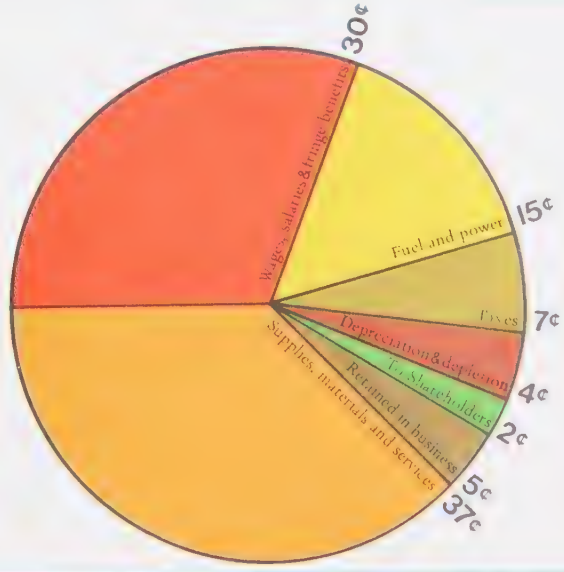


SHAREHOLDERS' RETURN ON EQUITY PER SHARE (at year end)

RETURN ON SHAREHOLDERS' EQUITY (before extraordinary items)



DISTRIBUTION OF THE 1977 SALES DOLLAR



OTHER OFFICERS



J. K. Barry



P. M. Belyea



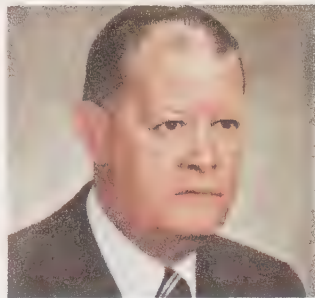
B. W. Hicks



R. A. Knapp



J. C. Preble



M. B. Robinson



K. L. Seely



D. G. McAlary



Jean Hammond

J. K. BARRY
Vice-President, Marketing

P. M. BELYEA
Vice-President, Woodlands

B. W. HICKS
Vice-President and Secretary

R. A. KNAPP
Vice-President, Marketing and Sales
Fraser Paper, Limited

J. C. PREBLE
Vice-President, Corporate Relations

M. B. ROBINSON
Vice-President, Finance

K. L. SEELY
Treasurer

D. G. McALARY
Controller

JEAN HAMMOND
Assistant Treasurer

OFFICES, PLANTS AND PRODUCTS

FRASER LUMBER

Mills:

Plaster Rock and Kedgwick,
New Brunswick

Product:

Eastern Canadian Spruce

End Use:

Residential and commercial buildings

Market:

Eastern Canada and Eastern United States

Sales Office:

Edmundston, New Brunswick E3V 1S9

FRASER PULP

Mills:

Atholville and Edmundston,
New Brunswick

Products:

Bleached and unbleached softwood
sulphite, and groundwood

Market:

North America and overseas

Sales Offices:

Edmundston, New Brunswick E3V 1S9

1155 Dorchester Blvd. West,

Montreal, Quebec H3B 3T6

FRASER BOXBOARD

Mill:

Edmundston, New Brunswick

Products:

Coated and uncoated folding boxboard

End Uses:

Packaging for food, detergents,
cigarettes, frozen foods,
pharmaceuticals, pet foods, etc.

Market:

Canada

Sales Offices:

1155 Dorchester Blvd. West,

Montreal, Quebec H3B 3T6

600 The East Mall,

Islington, Ontario M9B 4B1

FRASER PAPERS

Mills:

Fraser Paper, Limited

Madawaska, Maine

(a wholly-owned subsidiary)

Fine Papers:

Five paper machines

Groundwood Papers:

Three paper machines and one
off-machine blade coater

End Uses:

Papers for converting specialties,
commercial printing,
coated and uncoated publications,
directories and catalogues

Market:

United States

Sales Offices:

2 Greenwich Plaza,

Greenwich, Conn. 06830

2300 East Devon Avenue,

Des Plaines, Illinois 60018



Fraser Companies, Limited
Edmundston, N.B.

**NOTICE OF ANNUAL GENERAL MEETING
OF SHAREHOLDERS**

NOTICE IS HEREBY GIVEN that the Annual General Meeting of shareholders of Fraser Companies, Limited will be held at the Wandlyn Motor Inn, Edmundston, New Brunswick, Canada, on Friday, the 15th day of April, 1977, at the hour of 11:00 o'clock in the forenoon, Atlantic Standard Time, for the following purposes, that is to say:

To receive the annual report of the directors, the consolidated financial statements of the Company and its subsidiaries and the auditors' report for the fiscal year ended December 31, 1976;

To elect directors for the ensuing year;

To appoint auditors and to fix or to authorize the Board of Directors to fix their remuneration; and

To transact such other business as may properly come before the said Meeting.

If you are unable to attend in person, will you please date, complete, sign and return the enclosed instrument of proxy in the envelope provided for that purpose.

By Order of the Board of Directors,

B. W. HICKS,
Vice-President and Secretary.

March 4, 1977.

INFORMATION CIRCULAR

(dated as of March 4, 1977)

This Information Circular is furnished in connection with the solicitation of proxies for use at the Annual General Meeting of shareholders of Fraser Companies, Limited (hereinafter called "the Company") to be held at the Wandlyn Motor Inn, Edmundston, New Brunswick, Canada, on Friday, April 15, 1977, and at any adjournment thereof. In the event that you are unable to attend the meeting personally, you are requested to date, complete and sign the accompanying instrument of proxy and to return the same to the Company in time for use at the meeting. An addressed envelope with postage prepaid accompanies this Information Circular and may be used for such purpose.

Right of Revocation

A shareholder giving an instrument of proxy may revoke the same by instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the Head Office of the Company, Plaster Rock, New Brunswick, or the general office of the Company, Edmundston, New Brunswick, at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used or with the Chairman of such meeting on the day of the meeting, or adjournment thereof.

Solicitation of Proxies

The enclosed instrument of proxy is solicited by the management of the Company. The management does not contemplate a solicitation of proxies otherwise than by use of the mails. The cost of solicitation will be borne by the Company.

Voting Shares and Principal Holders Thereof

There are outstanding 2,209,115 Class "A" Convertible Common Shares without nominal or par value (hereinafter called Class "A" Shares) and 135,287 Class "B" Convertible Common Shares without nominal or par value (hereinafter called Class "B" Shares) of the capital stock of the Company. Each Class "A" Share and each Class "B" Share entitles the holder thereof to one (1) vote per share.

The holders of Class "A" Shares and the holders of Class "B" Shares will be entitled to vote at the meeting and at any adjournment thereof if present or represented by proxy thereat.

Noranda Mines Limited, through its wholly-owned subsidiary Northwood Mills Limited, and The Harold Crabtree Foundation each beneficially own or exercise control or direction over Class "A" Shares carrying more than 10% of the votes attached to the voting shares of the Company. Northwood Mills Limited beneficially owns or exercises control or direction over 1,289,317 Class "A" Shares and The Harold Crabtree Foundation beneficially owns or exercises control or direction over 241,429 Class "A" Shares, representing 54.99% and 10.30% respectively of the voting shares of the Company.

Election of Directors

The By-laws of the Company provide that the Board of Directors of the Company shall consist of ten (10) directors to be elected annually. The term of office of each director so elected expires upon the election of his successor unless he shall resign or his office becomes vacant by death, removal or other cause.

The following table sets out the names of all persons to be nominated for election as directors, their principal occupations, the period or periods of their service as directors of the Company, and the approximate number of shares of the Company beneficially owned or over which control or direction is exercised by each such person.

<u>Nominees for Directors and Principal Occupation</u>	<u>Period of Service as Director</u>	<u>Approximate Number of Shares of the Company</u>
John M. Anderson, Trustee of the Stock Purchase Plan of the Company; President and Vice-Chancellor of the University of New Brunswick (Institution of Higher Education).	1976 to date	50 Class "A" Shares
Carl E. Beigie, Executive Director and Comptroller of C. D. Howe Research Institute (Economic Research).	1975 to date	10 Class "A" Shares
W. R. Clerihue, Member of the Executive Committee and of the Audit Committee of the Company; Executive Vice President — Corporate Staff, Celanese Corporation (Diversified Multinational Producer of Petrochemicals, Fibers, Plastics, Coatings and Specialty Chemicals).	1974 to date	51 Class "A" Shares
Kenneth V. Cox, Trustee of the Stock Purchase Plan and a Member of the Audit Committee of the Company; President of The New Brunswick Telephone Company, Limited (Public Utility).	1969 to date	200 Class "A" Shares
H. Roy Crabtree, ⁽¹⁾ Vice-Chairman of the Board of the Company, Member of the Executive Committee of the Company, Trustee of the Stock Purchase Plan of the Company; Chairman and President of Wabasso Limited (Manufacturer of Textiles).	1956 to date	30,908 Class "B" Shares
John P. Fisher, President of the Company, Member of the Executive Committee of the Company, and President of Fraser Paper, Limited.	1976 to date	5,100 Class "A" Shares
Carl M. Frantz, President of Northwood Mills Limited (Manufacturer and Distributor of Forest Products).	1974 to date	501 Class "A" Shares
Knut Grotterod, ⁽²⁾ Senior Vice-President, Operations of the Company and of Fraser Paper, Limited.	1976 to date	1,600 Class "A" Shares
David J. Hennigar, Member of the Executive Committee and of the Audit Committee of the Company; Atlantic Regional Director of Burns Fry Limited (Investment Dealers).	1969 to date	200 Class "B" Shares
A. H. Zimmerman, Chairman of the Board, Chairman of the Executive Committee, and Chief Executive Officer of the Company; Chairman of the Board of Fraser Paper, Limited; Executive Vice-President and Director of Noranda Mines Limited (A Natural Resource and Manufacturing Company).	1974 to date	1,701 Class "A" Shares 100 Class "B" Shares

(1) Mr. Crabtree's "associate", The Harold Crabtree Foundation, beneficially owns or exercises control or direction over 241,429 Class "A" Shares.

(2) Knut Grotterod was appointed Senior Vice-President, Operations of the Company, in January 1975 and has been a Senior Officer of the Company and of Fraser Paper, Limited since September 1973, prior to which from September 1970, Vice-President, Production and General Manager of Nova Scotia Forest Industries, Port Hawkesbury, Nova Scotia.

Remuneration of Directors and Officers

The information as to the aggregate remuneration paid during the last completed financial year of the Company ended December 31, 1976 to the directors and, separately to the officers, is as follows:

	NATURE OF REMUNERATION EARNED		
	Directors' Fees	Salaries	Total
REMUNERATION OF DIRECTORS			
(A) Number of directors: 10			
(B) <i>Body Corporate incurring the expense</i>			
Fraser Companies, Limited	\$43,000		\$ 43,000
REMUNERATION OF OFFICERS			
(A) Number of officers: 14			
(B) <i>Body Corporate incurring the expense</i>			
Fraser Companies, Limited		\$314,311	314,311
Fraser Paper, Limited		137,830	137,830
TOTALS	\$43,000	\$452,141	\$495,141

Estimated aggregate cost to the Company and its subsidiaries of all pension benefits \$40,719

Aggregate amount of all remuneration payments other than payments reported above, proposed to be made in the future by the Company and its subsidiaries pursuant to existing arrangements \$13,750

No director, officer, proposed nominee for election as a director or associate of any of the foregoing is or has been indebted to the Company or its subsidiaries at any time since the beginning of the last completed financial year of the Company. Under the Stock Purchase Plan of Fraser Companies, Limited dated as of July 2nd, 1968, the Company provided moneys to trustees with which to purchase Common Shares of the Company which are held for the benefit of certain employees of the Company upon the exercise of their rights. The aggregate amount owing by such employees to the trustees as at the date of this Information Circular, was \$251,800.95 of which approximately \$55,266.37 was owing by employees who were directors and/or officers of the Company.

Appointment of Auditors

Peat, Marwick, Mitchell & Co. are the Auditors of the Company, having been first appointed to such position on April 19, 1974. It is proposed by the management of the Company that such firm be reappointed the Auditors of the Company.

Designation of Proxy

The persons named in the enclosed instrument of proxy have indicated to the Company their willingness to represent as proxy shareholders desiring to so appoint them. **If, however, a shareholder desires to appoint as proxy a person other than those designated, he should insert the name of his representative in the space provided therefor.** A person acting as proxy need not be a shareholder of the Company.

Voting of Shares Represented by Management Proxy

The shares represented by the instrument of proxy will be voted or withheld from voting, as the case may be, on any ballot that may be called for and, where the shareholder specifies a choice with respect to any matter for which a choice is provided, such shares shall be voted or withheld from voting in accordance with the specifications so made. Where a choice is not specified by the means provided in the instrument of proxy, **it is intended that the shares represented by the instrument of proxy in each such case will be voted in favour of each such matter.**

The enclosed instrument of proxy confers discretionary authority with respect to amendments or variations to matters identified in the Notice of meeting, or other matters that may properly come before the Annual General Meeting. The management is not aware that any such amendments, variations or other matters are to be presented for action at such meeting.

The contents and the sending of this Information Circular to the shareholders of the Company have been approved by the Board of Directors.

(Sgd.) B. W. HICKS,
Vice-President and Secretary.

TO THE SHAREHOLDERS AND EMPLOYEES:

Second quarter net earnings were \$2,530,000 or \$1.07 per share as compared to restated net income of \$2,453,000 or \$1.05 per share last year. First half net earnings this year total \$4,588,000 or \$1.95 per share as compared to the restated \$4,492,000 or \$1.92 per share for the same period in 1976. Sales for the six months are a record \$101,441,000, up 9% over last year's \$92,995,000.

Costs have escalated sharply across-the-board this year without offsetting selling price increases in most product lines, particularly Fine Papers where after six months net mill returns are lower than those of a year ago. However this, together with higher tax rates this year as compared to last year, was more than overcome by the premium value of the United States dollar. The market for Fine Papers weakened in June and is not expected to improve significantly until the end of the third quarter. On the other hand demand for our Groundwood Papers, Boxboard and Lumber was strong during the quarter and is expected to continue for the rest of the year. The world supply of market pulp continues to be excessive and continuing production curtailments are necessary.

The annual spray program in New Brunswick to control the spruce budworm was carried out during late May and June. The results, particularly on our limits, appear to indicate the continuing improvement in the condition of the forest that has been apparent over the last two years.

Progress on the Edmundston Pulp Mill Modernization Program continues according to plan with approximately 350 people now working on the project. Of the \$91 million budgeted for this program, approximately \$54 million have been committed, of which \$22 million have been paid. It appears that a major rebuild of the Atholville mill is not feasible under present economic conditions. Accordingly, detailed plans for rehabilitation of existing facilities are being actively developed. The new Planer Mill and Dry Kiln at the Kedgwick Sawmill are having a significant impact, with shipments from the mill reaching a record 3.6 million board feet in June.

A capital expenditure of \$2 million has been approved to increase the production of Lightweight Groundwood Papers by 10,000 tons per year. This increased capacity will come on stream in the third quarter of 1978.

A dividend of 44¢ per share was declared on June 22, 1977 on both the Class "A" and the Class "B" shares, payable on September 30, 1977 to shareholders of record September 9, 1977.

A. H. Zimmerman, Chairman
J. P. Fisher, President

Edmundston, N. B.
July 25, 1977

AUX ACTIONNAIRES ET EMPLOYÉS:

Le bénéfice net du second trimestre fut de \$2,530,000 ou \$1.07 l'action et se compare au revenu net rajusté de \$2,453,000 ou \$1.05 l'action l'an dernier. Le bénéfice net du premier semestre de cette année totalise \$4,588,000 ou \$1.95 l'action et se compare au montant rajusté de \$4,492,000 ou \$1.92 l'action pour la même période de 1976. Les ventes des six mois ont atteint le record de \$101,441,000, soit une augmentation de 9% sur le montant de \$92,995,000 atteint l'an dernier.

Les coûts ont augmenté brusquement de façon générale cette année, sans compensation dans les augmentations des prix de vente pour la plupart des lignes de produits, particulièrement les papiers fins où après six mois le rendement net du moulin est moindre que celui de l'an dernier. Cependant cette situation et les taux d'impôt plus élevés cette année, si on les compare à l'an dernier, furent plus que compensés par la prime du dollar américain. Le marché des papiers fins s'est affaibli en juin et ne devrait pas s'améliorer de façon importante avant la fin du troisième trimestre. D'autre part, la demande pour nos papiers de pâte mécanique, pour notre carton pour boîte et pour le bois en grume fut forte au cours du trimestre et devrait continuer de l'être pour le reste de l'année. L'offre mondiale de pâte sur le marché continue d'être excédentaire et il est nécessaire de continuer à limiter la production.

La vaporisation annuelle au Nouveau-Brunswick aux fins de contrôler la torduse de l'épimette fut faite à la fin de mai et en juin. Les résultats, particulièrement à l'intérieur de nos limites, semblent indiquer une continuation de l'amélioration observée au cours des deux dernières années dans la condition des forêts.

Le programme de modernisation du moulin à pâte d'Edmundston progresse selon les prévisions et environ 350 personnes travaillent présentement au projet. Des \$91,000,000 budgétés pour ce programme, environ \$54,000,000 ont déjà été engagés, dont \$22,000,000 ont déjà été payés. Il semble qu'une reconstruction majeure du moulin d'Atholville ne soit pas rentable dans les conditions économiques actuelles. En conséquence, des plans détaillés pour la réhabilitation des installations existantes sont présentement en voie de développement. Le nouveau moulin à raboter et tour à sec de la scierie de Kedgwick ont une influence importante, les livraisons du moulin ayant atteint le record de 3.6 millions de pieds-planche en juin.

Une dépense en immobilisation de \$2 millions a été approuvée afin d'augmenter la production des papiers de pâte mécanique légers d'environ 10,000 tonnes par année. Cette augmentation entrera en production au cours du troisième trimestre de 1978.

Un dividende de 44¢ l'action a été déclaré le 22 juin 1977 tant sur les actions de catégorie "A" que sur les actions de catégorie "B", payable le 30 septembre 1977 aux actionnaires inscrits le 9 septembre 1977.

A. H. Zimmerman,
Président du Conseil
J. P. Fisher,
Président

Edmundston, N.-B.
Le 25 juillet 1977



FRASER

AR25

SIX MONTHS INTERIM REPORT

RAPPORT INTÉRIEURE DES SIX PREMIERS MOIS

1977

FRASER COMPANIES, LIMITED AND SUBSIDIARIES

FRASER COMPANIES, LIMITED ET SES FILIALES

Second Quarter Second trimestre		Year to Date Exercice à jour	
1977	1976*	1977	1976*
(millions)		(millions)	

CONSOLIDATED STATEMENT OF EARNINGS (Unaudited)

ÉTAT CONSOLIDÉ DU BÉNÉFICE (non vérifié)

Earnings:

Net sales	\$53.0	\$46.9	\$101.4	\$93.0
Cost of sales	43.4	39.0	84.6	77.5
Depreciation and depletion	2.0	1.9	4.0	3.9
Selling, general and administrative expenses	2.4	2.2	4.7	4.2
	<u>47.8</u>	<u>43.1</u>	<u>93.3</u>	<u>85.6</u>
	5.2	3.8	8.1	7.4

Other income (expenses):

Interest income	.1	.3	.3	.6
Interest on long-term debt	(.1)	(.1)	(.2)	(.2)
Gain (loss) on foreign exchange	(.4)	(.5)	.5	(1.3)
Miscellaneous (net)	—	.1	.1	.2
	<u>(.4)</u>	<u>(.2)</u>	<u>.7</u>	<u>(.7)</u>

Earnings before income taxes	4.8	3.6	8.8	6.7
Taxes on income	2.3	1.2	4.2	2.2
Net earnings	<u>\$ 2.5</u>	<u>\$ 2.4</u>	<u>\$ 4.6</u>	<u>\$ 4.5</u>
Net earnings per share	<u>\$1.07</u>	<u>\$1.05</u>	<u>\$ 1.95</u>	<u>\$1.92</u>

Bénéfice:

Ventes nettes
Coût des ventes
Amortissement et épuisement
Frais de vente, frais généraux et d'administration

Autres revenus (dépenses):

Revenu d'intérêt
Intérêt sur dette à long terme
Gain (perte) sur change étranger
Divers (net)

Bénéfice avant impôts sur le revenu

Impôts sur le revenu

Bénéfice net

Bénéfice net par action

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

ÉTAT CONSOLIDÉ DE L'ÉVOLUTION DE LA SITUATION FINANCIÈRE

Source of funds:

Net earnings	\$ 2.5	\$ 2.4	\$ 4.6	\$ 4.5
Add items not requiring expenditure of funds:				
Depreciation and depletion	2.0	2.0	4.0	3.9
Deferred taxes on income	1.4	.3	2.6	.8
	<u>5.9</u>	<u>4.7</u>	<u>11.2</u>	<u>9.2</u>
Received from stock purchase plan	.1	—	.1	—
Long-term debt	—	33.9	—	33.9
	<u>6.0</u>	<u>38.6</u>	<u>11.3</u>	<u>43.1</u>

Provenance des fonds:

Bénéfice net
Ajouter les postes n'exigeant pas de sortie de fonds:
Amortissement et épuisement
Impôts sur le revenu reportés
Reçu du régime d'achat d'actions
Dette à long terme
Total de la provenance des fonds

Application of funds:

Additions and improvements to plants and properties - net	9.1	3.6	13.5	5.9
Redemption of long-term debt	.8	.8	.8	.8
Dividends	2.0	1.9	3.0	2.8
	<u>11.9</u>	<u>6.3</u>	<u>17.3</u>	<u>9.5</u>
Total funds used				
Increase (decrease) in working capital	(5.9)	32.3	(6.0)	33.6
Beginning working capital	64.7	38.1	64.8	36.8
	<u>\$58.8</u>	<u>\$70.4</u>	<u>\$ 58.8</u>	<u>\$70.4</u>

Utilisation des fonds:

Additions et améliorations aux immobilisations - net
Rachat de dette à long terme
Dividendes
Total de l'utilisation des fonds
Augmentation (diminution) du fonds de roulement
Fonds de roulement au début de l'exercice
Fonds de roulement à la fin du second trimestre

* 1976 earnings which were reported using an estimated tax rate have been adjusted to reflect the actual effective tax rate for the full year 1976.

* Le bénéfice de 1976 qui avait été présenté après utilisation d'un taux d'impôt estimatif a été rajusté pour refléter le taux d'impôt réel de l'exercice 1976 entier.